



Office of the Comptroller

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Members of the Zoning, Neighborhoods
& Development Committee
The Common Council, City of Milwaukee
Milwaukee, WI 53202

RE: File 031366 Menomonee Valley East
Project - Harley Davidson

Dear Committee Members:

File 031366 would authorize the City officials to enter into contracts consistent with a Master Term Sheet ("Term Sheet") for a proposed Menomonee Valley East Project the ("Project"). The Term Sheet involves the City of Milwaukee, the City Redevelopment Authority (RACM) and H-D Milwaukee LLC ("H-D"), a wholly owned subsidiary of Harley Davidson Motor Company, Inc. The Project would be located on the east end of Menomonee River and Canal, bounded on the west by the North 6th Street viaduct, and on the north, east and south by the Menomonee River and Canal. The development objective is to establish a Harley Davidson Museum, retail area, restaurant and café in Phase I, with potential later phases implementing museum expansion with archival storage, restoration and commercial office space for the Harley Davidson Corporation.

Our Office commends the recent efforts of the Mayor, Council members and Harley Davidson to create a Project totaling as much as \$95 million in private development. A Project of this magnitude can provide a visible development, additional property tax revenue and a potential source of significant employment in the Menomonee Valley. As a leading and long-standing Milwaukee employer, the Harley Davidson Corporation provides the City with a superior development partner.

One major financial and operational obstacle facing this development is that the Department of Public Works Traser Yards parts and maintenance facilities currently occupy the majority of the area now sought by Harley Davidson. These current DPW facilities encompass over 400,000 square feet including four major buildings with allied equipment and personnel. These facilities would have to be vacated and DPW moved to accommodate the Project.

As your Committee considers this proposal, the comments below are intended to help you become fully informed of the related risks as well as the opportunities already presented. What follows are key issues and concerns in our review of available documentation as well as recommended actions to help mitigate these risks and otherwise lower City costs

- 1) **To implement the Proposal as drafted would require the City to spend \$26,000,000 - \$30,000,000 (plus interest costs) during the next 2-2½ years.** First, the City must transfer all DPW maintenance and repair facilities including the construction of new buildings from the current Traser Yards site to an alternate location to make room for the development. The cost of this transfer is now estimated¹ to range from \$19,000,000 to \$23,000,000. An additional \$7,000,000 in City expenditures is needed for the H-D aspects of the Project.

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1. Presentation slides entitled "Feasibility Study of Relocation of Department of Public Works Facilities to Proposed Site, South Marina Drive and East Stewart Street", February, 2003. Above estimate includes addition of \$1/2 million to \$4 ½ million to cover the cost of foundation systems, soil remediation and moving City utilities to site including data communications.

Even assuming full success, by itself the H-D Project cannot economically justify a City taxpayer expenditure of \$26 million to \$30 million including the DPW Traser move. Based on the current property tax rate, City Assessor property value projections from a Tax Incremental district (TID) to be established for this Project would generate new property tax revenue totaling \$13.8 million over the next 23 years. This \$13.8 million in TID revenue would support only about \$8 million in Project costs financed through borrowed funds. This \$8 million covers less than one-third of the costs to accomplish the Traser move and the H-D Project.

Therefore, a decision to move the DPW Traser facilities must be made for economic development purposes reaching beyond the proposed H-D Project. The DCD points out that the Menomonee Valley Plan adopted by the Common Council in 1998 assumes the transfer of DPW facilities out of the Menomonee Valley. We are not aware of any projections of additional development beyond the H-D Project resulting from the DPW Traser move.

Recommendation #1: Your Committee should first assure itself that the proposed move of the DPW Traser Street facilities will produce taxpayer benefits well beyond the additional property tax revenue from the H-D Project. Without this assumption, the \$26 million in projected City taxpayer expenditures for the H-D Project alone cannot be economically justified².

- 2) In contrast to the City's substantial "up-front" financial commitment, H-D construction activity and expenditures would not begin in earnest for two years, with no assurance of development beyond the Phase I museum Project. The proposed H-D development period allows for an additional nine years to 2013 for the Phase III office development. Under the proposed Term Sheet, DPW must convey the property to H-D this year, complete the DPW move within 23 months, warrantee to H-D that the site is free of significant subsurface contamination and vacate certain public rights of way. Failure to accomplish these tasks within the allowed time could result in H-D returning the property to the City.

We are told by DCD staff that while H-D has divided this Project into three phases, H-D is committed to complete all three phases and expending the estimated \$95 million Project budget. The employment aspects of the H-D Project are heavily dependent on the Phase III Office development (280-400 jobs). However, without an adequate financial guarantee (see #3 below), this Phase III is no more than the present intention of H-D, subject to change at any time. In our opinion, 4 - 5 years (12/31/2009) should be ample time for H-D to begin construction of its offices in the Menomonee Valley.

Recommendation #2: If H-D is indeed committed to all three Project phases now, we see no reason to extend the H-D development period to the year 2013. A significantly shorter development period (2010-2011) should be incorporated into any final development agreement. If the H-D requires nine years to complete its Phase III (office expansion), we recommend that the Council ignore the Phase III office development in its decision on whether to proceed with the Project.

- 3) Given two years and \$26+ million the City would have to expend before significant H-D construction begins, the City is exposed to substantial financial and jobs loss should H-D decide to curtail or cancel its development plans. Experience indicates that capital plans can change as construction costs, the Harley Davidson business environment, etc. change with time. While the Master Term Sheet contains a H-D guarantee, this guarantee would provide only limited recourse by the City in the event of a change in H-D development plans. The proposed Term Sheet merely gives the City the right to repurchase the undeveloped land from H-D if H-D fails to implement its development plans within the extended development period allowed.

In this scenario, the City would have no assurance of any compensation for the years of lost development opportunity, additional costs of the Traser Yards move or any unbudgeted City soil remediation or other unanticipated costs. Moreover, the 280-400 jobs to be generated by the Phase III office complex - the major reason many would support this plan - would be lost. Rather than a

2. While jobs are expected to be created by the H-D project, it is unclear what new jobs would be created through planned H-D expansion versus jobs shifted from one H-D location to another. We have requested more information from the DCD on this issue.

financial guarantee, the current guarantee simply relies on the credibility of the current Harley Davidson plans.

Recommendation #3: The City of Milwaukee should require a guarantee that H-D is fully committed to construct the three development phases proposed in the Master Term Sheet or financially compensate the City in an equitable manner if H-D plans change. There are many options to arrive at equitable compensation to the City should H-D be forced by business conditions to change its plans. The current guarantee as contained in the Master Term Sheet is insufficient.

Normally the City does require such a guarantee in the form of a project completion guarantee, performance bond, personal guarantees, etc. None of these are present in the proposed Term Sheet.

Recommendation #4: Given the complexity of the proposed agreements to be negotiated with H-D³, these agreements should come back to your Committee and the full Common Council for approval. This would also give our Office an opportunity to review and comment on the detail commitments of both the City and H-D BEFORE terms are finalized.

4) **The needed \$26 million-\$30 million in City funds are NOT included in the 2004 City budget.**

The Term sheet proposes a \$7 million developer loan to the City for the City portion of the H-D Project. While this financing method does allow "off budget" financing by the City, the proposed 5% long term loan interest rate to be paid by the City is 25 percent more than the 4% cost if the City were to finance the outlay through City General Obligation (GO) bonds. The DCD apparently prefers the developer loan because the use of GO bonds for this Project would lower the City's capacity to finance other TID projects later in 2004 by \$7 million. (The \$19-23 million required to move the DPW Traser facilities would ultimately be paid for by city taxpayers through contingent borrowing authority or RACM borrowing and a lease agreement with the City.)

Recommendation #5: If your Committee ultimately elects to approve this Project, we recommend the use of General Obligation (GO) borrowing authority already in the 2004 budget. H-D would be required to repay to the City any debt service not recovered through future tax increments consistent with the economics of the current proposal. Using budgeted GO borrowing would save the City nearly \$1,000,000 in interest costs compared to the proposed developer loan over a 20 year period.

Given the above issues, we recommend that this file be first referred to the Public Improvements Committee to address the move of the Traser Yards facilities, then if approved there, returned to this Committee to consider an updated H-D Term Sheet for approval. This would also provide an opportunity to address the issues raised in this letter. We firmly believe that with the opportunity to address the above City risks we can help move this important Project forward at acceptable risk to the city taxpayer.

Should you have any questions or comments regarding this letter, please contact me immediately.

Very truly yours,



W. Martin Morics
Comptroller

Cc Members of the Public Improvements Committee
Ms. Patricia Algiers
Mr. Thomas O. Gartner
Mr. James A. Scherer
Mjd/1-29-04

3. Agreements to be negotiated include: Purchase and Sale Agreement, Cooperation, Reimbursement and Redevelopment Agreement, Traser Yards Lease and Emerging Business Enterprise Agreement.